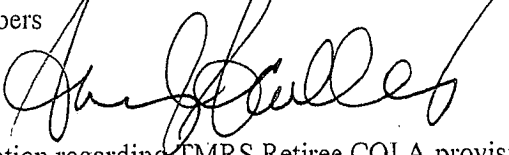


CITY OF SAN ANTONIO
OFFICE OF THE CITY MANAGER
Interdepartmental Correspondence Sheet

TO: Mayor and City Council Members

FROM: Sheryl Sculley, City Manager 

SUBJECT: FY 2010 Budget Recommendation regarding TMRS Retiree COLA provisions

DATE: September 15, 2009

Attached please find a communication piece that was sent to retirees last week regarding changes included in the FY 2010 Proposed Budget. Given that I am not recommending Cost of Living (COLA) increases to active civilian and uniform employees, I am also not proposing a COLA for retirees in FY 2010. This will not affect their current monthly pension amount. Additionally, as with civilians, I am recommending that retiree health care premiums remain the same.

Listed below are some key points related to my recommendation:

- In 1991, the City adopted an ordinance which authorized the Texas Municipal Retirement System (TMRS) to grant automatic COLAs to participating retirees. Prior to that, the City adopted retiree COLAs every year on an "ad-hoc" basis.
- Recent changes to TMRS actuarial calculations of long-term plan liabilities significantly impacts cities who have adopted this annually repeating provision.
 - In the City of San Antonio's case, continuation of this provision would require a significant increase to the City's match to the current employee contribution of 6%. The City's contribution rate of 13.07% would increase to 13.95% next year, and up to a projected 18% in subsequent years. Therefore, the City's current "two to one" matching provision would be funded at a "three to one" level to maintain benefits due to actuarial requirements.
 - Removal of this provision decreases the City's current rate to 12.25%, which saved \$1.1 million in the General Fund in FY 2010. Increasing the current rate up to the proposed 2010 rate of 13.95% described above would require additional funding of \$1.2 million in the General Fund. Therefore in order to maintain the current annually repeating COLA provision, total funding of \$2.3 million would need to be added to the proposed FY 2010 General Fund budget.
- Removal of this provision does not prohibit the City from granting an ad-hoc retiree COLA on an annual basis.
 - The City could decide next year whether or not to grant retiree COLAs at the same time a decision is made regarding employee COLAs.
 - The "retroactive" nature of the TMRS COLA means that a retiree receives a percentage increase equal to the total amount of CPI increases since they last received a COLA, not just over the past year. Since retirees will not receive the approximate .1% increase in annuity this year, a COLA granted next year would add this amount to any prospective COLA increase. There is no retroactive "back payment" of COLAs for missed years to retirees.

- While the retroactive nature of COLA provisions is problematic and needs to be addressed legislatively, the greater impact to the City's contribution rate is the "annually repeating" nature of the current COLA provision. The promise of perpetually granting a COLA to all current and future retirees impacts actuarial liability calculations, which increases the City's expected contributions by millions of dollars each year.

With assistance from Buck Actuarial Consultants, the City will continue to study options that would include removing COLA retroactivity provisions, adding recurring and one-time COLAs, creating new plan options and structures, and possibly opting-out of TMRS altogether to create a San Antonio specific plan. Many of these initiatives require legislative changes to TMRS state provisions, which the City will pursue again in the next legislative session. Recommendations related to TMRS will be made to City Council by the Spring/Summer of 2010, providing time for City staff to meet with members of the Bexar County legislative delegation and other members of the Texas legislature and to seek support of other cities and stakeholder groups.

The City will continue to provide information to and seek input from both retirees and active City employees through the TMRS Task Force, focus groups and work sessions. Staff will continue to work with retirees to address their specific concerns and questions as the City works through the economic challenges impacting our budgetary status.

If you have any questions or need additional information, please let me know.